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Today's top news stories



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Cartoon: Model Behaviour
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Ex-Singlife execs to launch new Japanese paytech Purasu Money
Purasu to launch under umbrella of new venture SJ Mobile Labs.

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Nominations close 18 February 2022

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What the FinTech?
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S.2 Episode 19

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What the Fintech? | S.2 Episode 19 | Can't see the wood for the VCs

Ian Foley, partner at Level Ventures and resident cartoonist at FinTech Futures, joins us for this latest episode of our What the Fintech? podcast.

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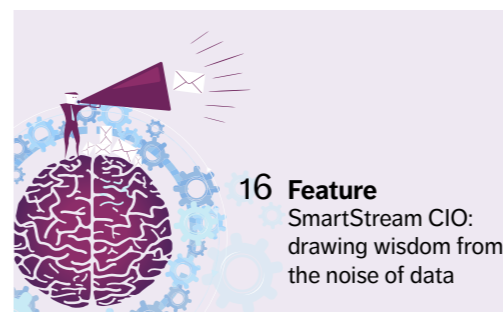
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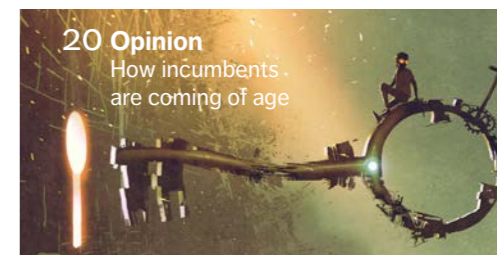
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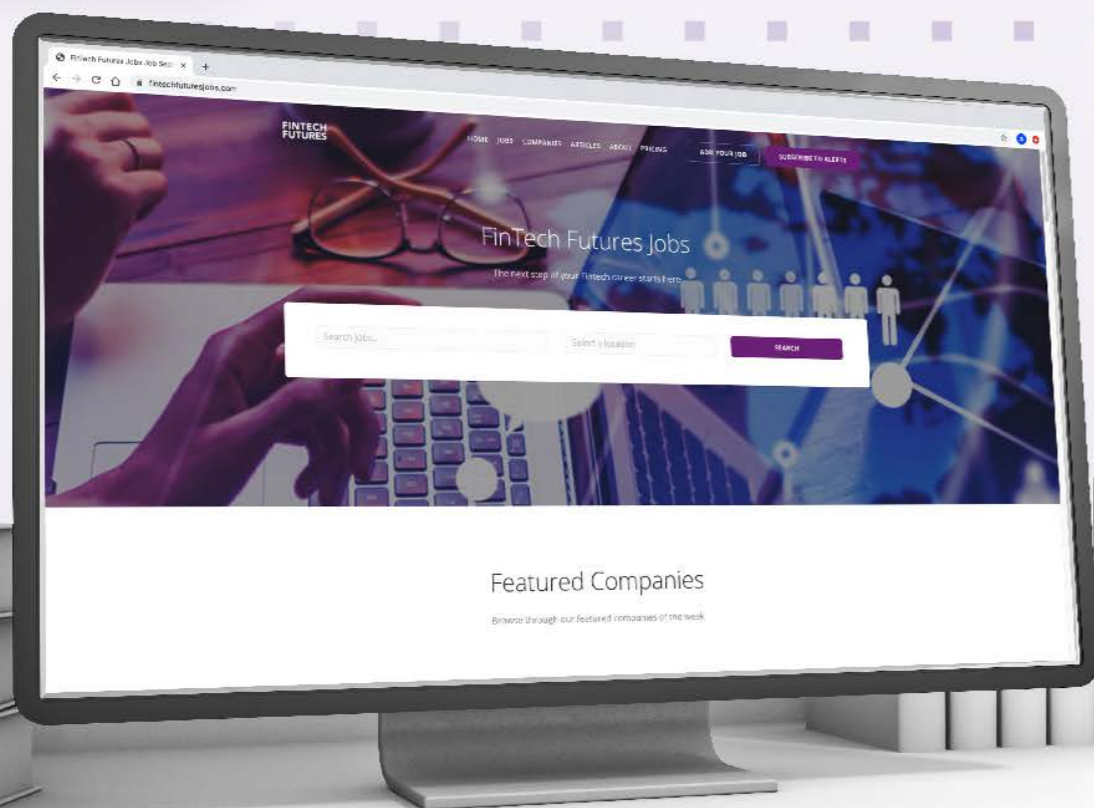
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Editor's note



It's what we've all been waiting for. After two years as an all-digital event, Sibos is back with a bang this year with another in-person iteration, with delegates from across the world set to converge on the RAI in Amsterdam.

This year's bumper *Daily News at Sibos* comes to you in digital format once more, giving you a feast of insights and discussion focused on the future of finance in one supplement.

We aim to explore the theme of the conference, which this year is "progressive finance for a changing world", covering topics including technological innovation, sustainability and ethics in financial services.

The magazine features insight from a number of regular *FinTech Futures* columnists. Dr Leda Glyptis, chief client officer at 10x Banking, takes a look at the history of the Sibos conference and how incumbents are coming of age in an ever-changing industry, while AskHomey CEO Dharmesh Mistry discusses whether banks are truly innovating when it comes to launching new products for their customers.

NMD+ founder Dave Wallace

dives into how the finance industry has stepped up in the battle against climate change over the last year and what more can be done to achieve net-zero goals, and Unconventional Ventures founder and author Theodora Lau discusses the role of financial services in creating a more ethical and sustainable world.

Alex Pugh speaks to SmartStream CIO Andreas Burner about the complexities of data reconciliation for banks and how AI and machine learning can help, as well as new developments the company has been working on, while State Street runs through the key takeaways from its most recent Digital Digest, covering the latest analyses of developments in digital finance.

FinTech Futures reporter Shruti Khairnar takes a look at India's fintech growth story, HSBC's Lewis Sun dives into the potential for CBDCs, and Lloyds Bank's Gwynne Master discusses the future of trade finance and whether paperless trade is within reach.

As ever, feel free to check out our website for this year's latest Sibos news.

Editor, Paul Hindle

Swift pilot lays foundation for use of CBDCs and tokenised assets in global finance



Following a series of experiments, Swift has concluded that central bank digital currencies (CBDCs) and tokenised assets are able to move “seamlessly” on existing financial infrastructure.

Calling it a “major milestone”, the experiments demonstrate that it is possible to integrate CBDCs and tokenised assets into the global financial ecosystem.

Swift says the findings, which come from two separate experiments, solve the “significant challenge” of interoperability in cross-border transactions by bridging different distributed ledger technology (DLT) networks and existing payment systems, “allowing digital currencies and assets to flow smoothly alongside, and interact with, their traditional counterparts”.

It adds that as CBDCs and tokens develop, they can be deployed at scale to facilitate trade and investment between more than 200 countries and territories around the world.

In collaboration with Capgemini, Swift says it achieved CBDC-to-CBDC transactions between different DLT networks based on Quorum and Corda technologies, as well as fiat-to-CBDC flows between these networks and a real-time gross settlement system.

Fourteen central and commercial banks, including Banque de France, the Deutsche Bundesbank, HSBC, Intesa Sanpaolo, NatWest, SMBC, Standard Chartered, UBS and Wells Fargo, are now collaborating in a testing environment to work towards full-scale deployment.

The success of the experiment shows that the blockchain

“Tokenisation has great potential when it comes to strengthening liquidity in markets and increasing access to investment opportunities.”

Tom Zschach, Swift

networks can be interlinked for cross-border payments through a single gateway, “and that Swift’s new transaction management capabilities could orchestrate all inter-network communication,” the organisation adds.

In a separate experiment, Swift collaborated with Citi, Clearstream, Northern Trust and blockchain firm SETL. Here, Swift demonstrated that its infrastructure can serve as an “interconnector” between multiple tokenisation platforms and different types of cash payment.

“Digital currencies and tokens have huge potential to shape the way we will all pay and invest in the future. But that potential can only be unleashed if the different approaches that are being explored have the ability to connect and work together,” explains Tom Zschach, chief innovation officer at Swift.

Calling inclusivity and interoperability the “central pillars” of the financial ecosystem, Zschach says that for CBDCs, Swift’s solution will enable central banks to connect their own networks directly to all other payments systems in the world through a single gateway, “ensuring the instant and smooth flow of cross-border payments”.

“Tokenisation has great potential when it comes to strengthening liquidity in markets and increasing access to investment opportunities, and Swift’s existing infrastructure can ensure these benefits are realised at the earliest opportunity, by as many people as possible,” he adds.

Police Bank Australia taps Temenos for core banking upgrade

Banking tech vendor Temenos has been selected by Police Bank Australia to modernise its core banking systems. The bank will deploy Temenos Retail Banking Services running on the Temenos Banking Cloud.

Temenos says its cloud-native core processing engine will allow the bank to roll out new digital services at speed as it embarks on a multi-year digital transformation drive.

Craig Bennett, managing director of Asia Pacific at Temenos, says its technology will enhance Police Bank’s banking services “with highly connected and personalised

interactions for its members”.

“The banking industry is increasingly seeing that cloud technology is not just a driver of efficiency but an enabler of change,” Bennett adds.

Founded in the 1960s as a police credit union, Police Bank is a member-owned institution that supports the financial wellbeing of Australia’s police and border force community.

The bank recognises that many members, particularly younger recruits, are eschewing traditional banking services and relying on digital-first solutions to access services. Temenos’ Banking Cloud

“The banking industry is increasingly seeing that cloud technology is not just a driver of efficiency but an enabler of change.”

Craig Bennett, Temenos



\$4.7bn Prosus acquisition of India’s BillDesk falls through



Dutch e-commerce company Prosus has nixed a deal to acquire Indian digital payments provider BillDesk.

Prosus subsidiary PayU was set to acquire BillDesk for \$4.7 billion, but the firm says certain conditions were not met by the 30 September 2022 long stop date and the agreement was automatically terminated.

The news comes after the deal was given the go-ahead by the Competition Commission of India (CCI), with PayU securing CCI approval on 5 September.

The acquisition would have seen Prosus’ fintech business expand its reach in India and become



PayU CEO Laurent Le Moal

one of the largest online payment providers globally by total payment volume.

When the deal was originally announced back in August 2021, PayU CEO Laurent Le Moal said the move aligned with the Indian government’s Digital India project and would strengthen the country’s digital economy.

Despite the collapse of the deal, Prosus “remains committed” to the Indian market and growing its existing business’ in the region, having invested nearly \$6 billion in Indian tech firms since 2005.

PayU reported a total payments volume of \$55 billion across India, Latin America and Europe in 2020. It has licences for credit distribution in both retail and business markets in India.

Railsr secures \$46m in Series C funding

railsr

Embedded finance platform Railsr has landed \$46 million in a Series C funding round – \$26 million in equity and \$20 million in debt.

The equity part of the fundraise was led by Anthos Capital and featured participation from existing investors Ventura, Outrun Ventures, CreditEase and Moneta. The debt

facility has been provided by Mars Capital, a new investor in Railsr.

Founded in 2016, Railsr provides embedded finance services to businesses, including banking products, wallets, cards, credit and rewards. It claims to work with more than 300 customers from the financial and retail industries.

Railsr CEO and co-founder Nigel Verdon says the funding is a “significant step on our route to profitability”.

“The market is accelerating towards embedded finance. We are seeing a growing demand for embedded finance experiences, particularly amongst younger age groups,” Verdon adds.

Railsr recently [teamed up with fintech start-up Maslife](#) to provide embedded finance services. In August, it also appointed former chairman of Mastercard, [Rick Haythornthwaite](#), as its first chairman.

Achieving net-zero across an FI's value chain

By Dave Wallace, founder, NMD+

It's a year since I wrote an article for Sibos that talked about the challenges faced by the finance industry regarding climate change.

COP26 in November 2021 proved to be a pivotal moment. The loudest voices seemed to be coming from the finance industry, especially with the launch of Mark Carney's Glasgow Financial Alliance for Net Zero (GFANZ), a coalition of leading financial institutions committed to decarbonising the economy.

Since then, the industry response has been incredible, with businesses across all financial sectors committing to net-zero targets by 2030. In 12 months, it has gone from what felt like a minority interest to taking centre stage in many institutions. C-suite executives now have decarbonisation KPIs as part of their targets.

Many financial institutions (FIs) are now looking across their value chains for opportunities to decarbonise but are quickly discovering what a complex mission this is.

A useful starting point is the Greenhouse Gas Protocol's "Scopes".

Scope 1 covers direct emissions from owned or controlled sources, for example, air conditioning or heating

produced on-site. Scope 1 also includes the brilliantly termed "fugitive emissions" from leaks or spills. Scope 2 covers indirect emissions from purchased electricity, heating or cooling (generated off-site).

Scope 3 includes all other indirect emissions in a company's value chain and is where most of a company's emissions are, including purchased goods and services, business travel, employee commuting, the use of the company's products and services by customers and investments.

But decarbonisation is like the mythical many-headed hydra. Solving one issue creates others, and associations are being spun up to support members to address this complexity and advocate for a more holistic approach.

One such association is the newly formed Sustainable Trading Group (STG), which aims to set the standard for ESG best practices across the financial markets trading industry. The STG has identified the need for providing practical advice as a priority across member businesses, formulating best practices and developing principles to ensure a more sustainable future.

The finance industry has many opportunities for gains (both

marginal and significant) in carbon reduction through taking a holistic approach.

Suppose a company commits to the goal of net-zero. In that case, it must act across the organisation rather than relying on a few token efforts (for example, biodegradable cards and off-setting).

Imagine any modern finance business organised across technology, propositions, operations and marketing.

Starting with technology, a major consideration for the FI will be its data centres that run applications and provide storage. Data centres use about 1-2% of global electricity – the same as powering 32 million homes.

FIs are now putting pressure on data centre companies and their suppliers to reduce their

emissions, and the data centre companies are responding – some incredible innovations are happening.

For example, the US/Israeli company ZutaCore has developed a direct-on-chip, waterless, two-phase liquid cooling system requiring less energy and halving the space of conventional cooling systems. This means smaller data centres that are much more energy

efficient. ZutaCore is a member of Open19, part of the Linux foundation's project dedicated to open source and open standard data centre innovation. Through Open19, the data centre industry can work together to make structural progress on heat capture and cooling.

Another member of Open19 is the data centre provider Equinix.



Equinix is spending a lot of time thinking about how to recover heat or “dead electrons”. It is looking at ways of turning waste heat into electricity and trialing schemes in Finland to use waste heat to power residences near its data centres. It is also looking at alternative power sources and has a new data centre in Silicon Valley that uses hydrogen fuel cells for its primary power – totally off-grid.

Sitting on the hardware in the data centres is software. There are incredible efficiency gains to be made through improvements in software. GoCodeGreen analyses software products – be they a website, mobile application, full-stack app or end-to-end platform – and provides recommendations for efficiencies. Its assessment provides actionable recommendations at any development/product lifecycle stage. Early assessment in pre-build means design decisions and choices can be made to build energy-efficient software right from the start. If software is in the development stage, it enables the introduction of sustainability, and if it’s already live, retrospective assessment on existing platforms highlights remedial action.

An FI’s proposition (for

“ According to research by CoGo, 75% of customers want to know more about the environmental impact of their spending. And 62% support their bank in helping them reduce their impact.

Dave Wallace, NMD+

instance, its products and services) are significant opportunities for Scope 3 decarbonisation. Companies such as CoGo, Ecolytiq and Duconomy are working with FIs to embed carbon information into digital banking platforms so customers can see their impact. They also provide content and education to help customers change their behaviour. According to research by CoGo, 75% of customers want to know more about the environmental impact of their spending. And 62% support their bank in helping them reduce their impact. So, this is a win-win for banks and their customers.

At the operation level, there are many gains to be had.

Procurement’s role will be increasingly important as they become the gatekeepers of decarbonisation on the supplier side. Suppliers are under increasing pressure to explain and prove their sustainability credentials. Across the supplier value chain of an FI, this is creating a positive ripple effect, with suppliers of suppliers having to move beyond box-ticking into tangible action. Almost everything procurement touches will need to demonstrate what it is doing to decarbonise, including marketing.

Marketing is often overlooked but harbours a lot of emissions. Digital marketing, by its very nature, relies on energy through the infrastructure it requires.

Scope3 is a public benefit corporation founded to help companies understand emissions in their digital advertising and pricing carbon into campaign decisions. Its research estimates that approximately one gram of carbon is produced every time an ad impression is generated. With an average campaign for an FI involving millions of impressions, that is a lot of emissions.

The marketing specialist HH Global, which works with several FIs across the world, can estimate carbon emissions on campaigns at the proposal stage, allowing consideration of low-carbon alternatives before a marketing campaign has even left the drawing board. HH Global has developed several platforms and frameworks with credible parties, including the BSI (British Standards Institute).

When all the potential opportunities for an FI to reduce emissions are totted up, it equals a significant amount. Technology, process and products are being co-opted successfully by the industry, which is hugely positive and demonstrates what collective ambition can do in ensuring the achievement of net-zero goals.



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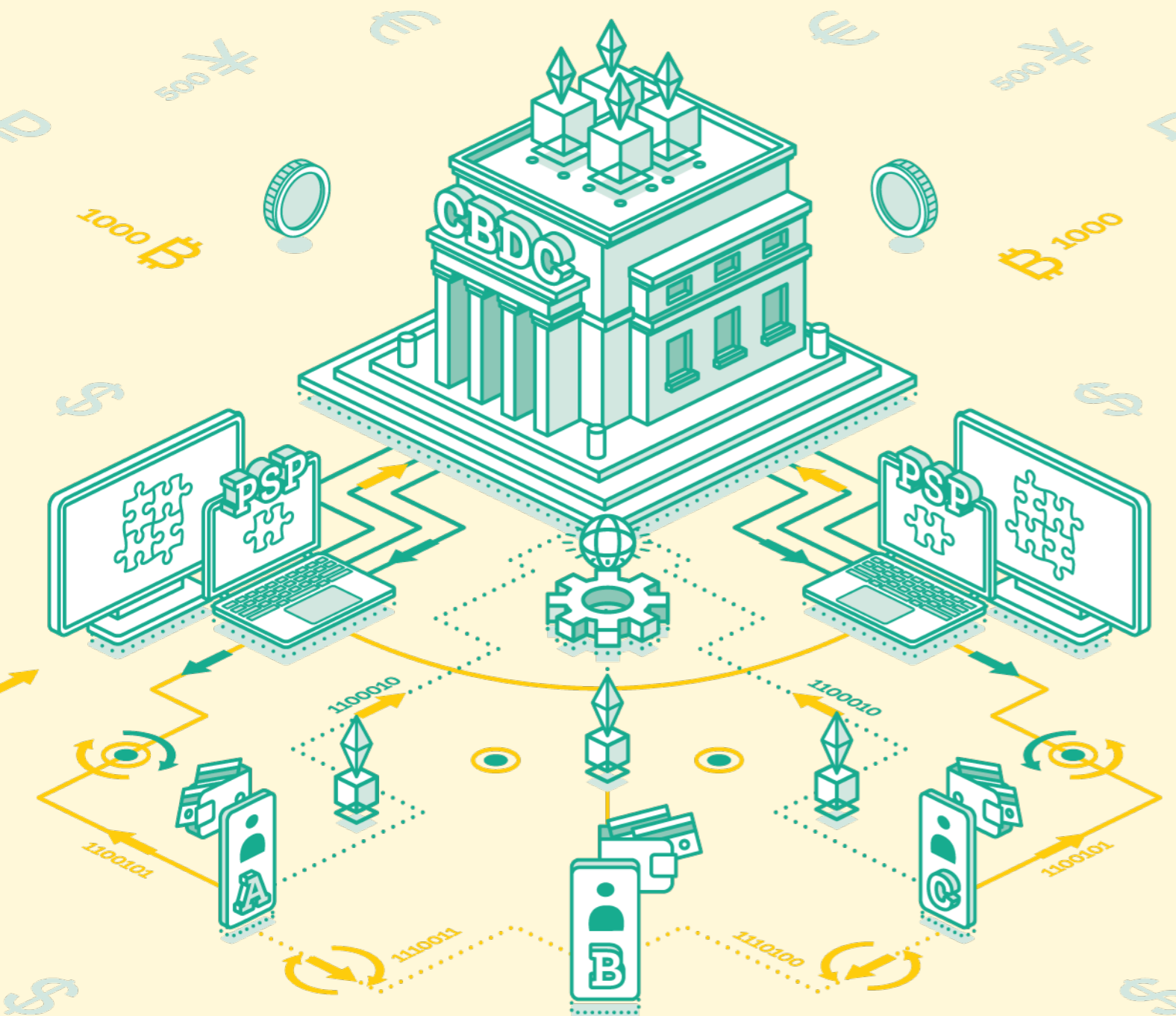
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The next step in the evolution of money

By Lewis Sun, head of domestic & emerging payments, global payments solutions, HSBC



Central bank digital currency (CBDC) has moved beyond conceptual discussions. Over 100 jurisdictions, international financial institutions and inter-governmental bodies have entered into various proof-of-concepts (PoC) and pilots of CBDC to explore merits and considerations of this new form of money.

What is a CBDC?

A CBDC is generally defined as a digital format of central bank money, most commonly represented in a tokenised version underpinned by distributed ledger technology (DLT). Served as a legal tender, it is issued and regulated by the central bank.

There are two types of CBDCs. The first are retail CBDCs, intended to be used by consumers, businesses and corporations in day-to-day transactions, similar to how current e-wallets, credit cards or cash transactions are used.

The second are wholesale CBDCs, which are intended to be used only for financial institutions and are not accessible to consumers, businesses or corporates. The use case of wholesale CBDCs usually revolves around improving institutional settlement speed and reducing counterparty risks.

What are the motivations to explore CBDCs?

Many central banks are examining CBDCs. Some are in the early stages, but progress is accelerating. A 2021 BIS survey found that 86% are conducting research, 60% have moved to experiments and 14% are now conducting pilots.

Informed through discussions with central banks, many see four key motivations to explore CBDCs: protecting financial stability, financial inclusion, crime prevention and improving

the domestic and cross-border payment experience. Initial analysis of CBDCs suggests that if they are designed prudently, they can potentially offer more resilience, more safety, greater availability and lower costs than private forms of digital money. They are in stark contrast to some crypto assets that are unregulated.

Key considerations to make CBDCs a reality

As of today, there are now 105 countries and jurisdictions that are exploring CBDCs. Among them, 50 countries are in an advanced phase of digital currency exploration (development, pilot or launch). For G20 countries, 19 are exploring a CBDC, with 16 already in the development or pilot stage.

With across-the-board global testing and some implementation of CBDCs, one could argue that their use might eventually become widespread. However, there are three key considerations that might help propel CBDCs into achieving their full potential.

Financial market stability -

Central banks should commit to minimising the impact of CBDCs on financial intermediation and credit provision. By entrusting financial intermediaries with distributing CBDCs, central banks can continue to benefit from their experience in areas such as onboarding of consumers and anti-money laundering checks. Central banks can also ease liquidity conditions, for instance by providing abundant and favourable central bank funding, if required, to limit strains from possible changes in the composition of bank funding.

Interoperability of CBDCs - A key issue, especially observed through projects focusing on exploring CBDC-based cross-border settlement schemes, is that today most central banks

only provide accounts to local banks, preventing CBDCs being interoperable. Without each country changing that policy and providing direct access to foreign payment providers, the cross-border benefits of CBDCs seem hard to achieve. We support interoperability between CBDCs to preserve and support global markets. Depending on the preference of central banks, this can sometimes take the form of bilateral arrangements, a hub and spoke model or single cross-border platforms.

Alignment of policy

developments - Beyond the monetary and interoperability design aspects of CBDCs, policy developments are also essential, including developing new legal frameworks, new regulations and new case laws. Privacy in particular has been cited by many central bankers as one key consideration. Privacy and personal data protection policies need to be updated to address specific concerns that CBDCs may bring around data access. Transparency and public understanding of such policies and protection of the public are of paramount importance. Taken together, careful design and policy considerations will underpin trust in CBDCs.

CBDCs could be the next big leap in the evolution of money. Widespread digitisation across the economies has prompted a number of central banks to evaluate issuing a digital form of existing fiat money that can be used as legal tender.

While there are apparent advantages for implementing CBDCs, there is no universal case for CBDC adoption, thus the rationale and use cases would differ across countries. The studies are still at an initial stage and any adoption needs to be carefully assessed and evaluated as it could have profound implications for the banking system.

Food, shelter, water - what does banking have to do with it?

By Theodora Lau, founder, Unconventional Ventures



The idea of progress is the belief that human society gets better and better over time. But it's hard to think about progress when we are facing unprecedented crisis after crisis.

What can leaders do during such turbulent times? How can we instill hope and trust in an increasingly polarised society?

The world is at a critical juncture

Food, shelter and water are barebone necessities for one's survival. Access to such basics, along with the internet and healthcare, should be basic rights for the modern era. Yet, the statistics are startling:

- According to the United Nations, the world is not on track to achieve Sustainable Development Goal 2 (SDG2), zero hunger, by 2030. In fact, in 2020, approximately 720 to 811 million people went hungry (118 million more people than in the year prior). Unless we take bold actions, around 660

million people may face hunger in 2030. To put the crisis in perspective, this is close to double the current population of the US.

- Water covers 70% of our beautiful blue marble. Unfortunately, water scarcity is an increasing problem on every continent. As reported by UN-Water, 2.3 billion people live in water-stressed countries, and 4 billion people (nearly two-thirds of the global population) experience severe water scarcity during at least one month of the year.

This is just the tip of the iceberg. The current impacts of climate change are putting our civilisation at heightened risk of reaching climate tipping points, a scenario where crossing intricate thresholds would trigger significant and irreversible changes in how our planet operates. It is an event – perhaps *the* event – that impacts not only those whose livelihood depends on water (for example,

farmers) and those who live in poor countries, but also the rest of human civilisation.

But what does banking have to do with it, you ask?

Money makes the world go round

Of the many roles that banks play, one of the most important ones is being the intermediary between depositors and borrowers. With great power comes great responsibility. Regardless of what form money takes, banks hold an outsized role in shaping our society. With intention, they can be at the forefront of change. By focusing on what the world needs, we can create a roadmap to a better future – together.

It all starts with trust.

Banking is a trust business

People will only use banking services if they trust that their money is safe in the bank, and when they make a payment, the money will be received. Ultimately, banks need to show

that they have the consumers' interests at heart.

This is where technology plays a crucial role: banks can leverage data analytics to better understand their customers and their needs, provide better and more personalised services, and make services more equitable and accessible.

A great example is Project REACH, which aims to expand credit access in underserved communities and lower the barriers to financial services. Major US banks including JP Morgan, US Bancorp and Wells Fargo are among those working with the project.

Another Project REACH collaborator is Citi, which is set to launch two new pilot programmes. It plans to issue credit cards to people without credit scores by leveraging information such as the applicant's income and spending habits to measure creditworthiness. In addition, the bank will also assist small business owners who are

women, veterans or from underrepresented communities to get credit by adapting their underwriting standards and through lower credit score thresholds.

By enabling financial inclusion, through new business models and partnerships, banks can play a crucial role in lifting people out of poverty and help break the cycle of inequality.

Towards a sustainable future

Despite pledges from the Net Zero Banking Alliance committing to aligning its members' lending and investment portfolios with net-zero emissions by 2050, Citigroup, Wells Fargo, Goldman Sachs and Bank of America spent a combined \$137 billion on fossil fuel projects last year alone.

Yet, it can't be clearer what needs to be done. Institutional investors need to shift away from carbon-intensive industries and vote with their wallets to help scale up and mature cutting-edge renewable technologies

and transition the world to a low-carbon economy. Our industry needs long-term objectives on climate action and a clear framework to move away from fossil fuels.

Else, the pledges are nothing more than PR and empty promises, towards an increasingly unpredictable future that we can ill afford to gamble on.

A dividend for the present is a dividend for all

So how are banks looking to reinvent themselves for the 21st century?

Leaders need to do more than merely reacting to customer demands and competitive threats. Purpose needs to be integral to everything that we do, much like how DEI must be part of a successful company's DNA.

Taking the necessary bold actions today will lay the foundation for tomorrow, and it is the only way that we can sustain and thrive through the turbulent times in an increasingly fragmented world.

How SmartStream draws wisdom from the noise of data

By Alex Pugh, reporter, FinTech Futures

Banks and other financial institutions (FIs) are handling vast and unprecedented quantities of data, and it's only set to increase.

These large datasets can expose financial institutions, particularly those that are reliant on legacy systems and manual processes, to heightened risk.

Artificial intelligence and machine learning (AI/ML) tools are essential if banks and FIs are to meet the challenges when it comes to data, particularly surrounding data reconciliation.

FinTech Futures spoke with Andreas Burner, chief innovation officer (CIO) at SmartStream Technologies, about how the firm's AI/ML tech can draw wisdom from the noise of data, plug the knowledge gap created by employee churn and how, in the Age of Machines, AI/ML can set humans free to handle valuable qualitative data tasks.

While many FIs have a fairly high ratio of automation within their existing legacy systems, which means they *can* process high volumes of data, sometimes the relevant information coming into these institutions is "not in perfect shape", Burner says.

Legacy rule-based systems struggle with massive amounts of knotty, messy data and therefore FIs need new ways to automate the "not so pretty data", otherwise these firms become too reliant on manual work. Nonetheless, automating

such unstructured data is particularly difficult.

"When we work with the Tier 1 institutions, we see this over-reliance on manual processes in their exception management departments," Burner says. "That's a big pain point in banks that we are currently targeting, and we are trying to make that process more efficient."

The Great Resignation

In the aftermath of the Covid-19 pandemic, many FIs are grappling with both an influx of real-time digital payment data and an exodus of staff – often taking their accrued wisdom with them.

However, there is wisdom to be mined from the data that FIs already possess. Because FIs have to store much of this data for many years for regulatory reasons, "when we look at that data, it contains information regarding workflows and how staff made decisions in certain scenarios", Burner says. This helps to offset the knowledge gap left when senior staff leave and a new cohort takes over.

If new staff can be guided by software, this can really assist FIs in the onboarding of new employees, helping to transfer that accrued wisdom.

FIs are also witnessing a massive influx of low-transaction value data thanks to the

ubiquity of digital, contactless payments. And it's a trend that banks and FIs think is only going to increase.

When SmartStream works with banks on projects in its Innovations Lab, "we always

hear that we should be ready to process even higher amounts of data than we already handle", Burner says.

FIs, at the coal face of this trend, know that thanks to players such as Apple Pay and Google Pay, the quantity of

transaction data that needs reconciling is only going to increase.

"People pay much lower transaction amounts digitally than they would have paid in the past, so you see a huge number of transactions, many with very low value, and that is quite difficult to reconcile," Burner explains.

Nonetheless, managing these transactions is still important because if a large number of these fail – despite their individually low values – in total, that is still a substantial risk for any bank. "So, while contactless is great for the customer, it can be a burden for their bank," Burner adds.

Age of Machines

Artificial intelligence and machine learning are certainly key to FIs if they are to handle the vast datasets that are now commonplace in finance. But in this Age of Machines, what role is there for humans when it comes to managing and capitalising on financial data?

"Exception management is the hardest thing to do in financial institutions because exceptions come in so many different flavours," Burner says. "That's why our latest technology, which we are announcing at Sibos, is AI for exception management."

Such exceptions could range from problems with

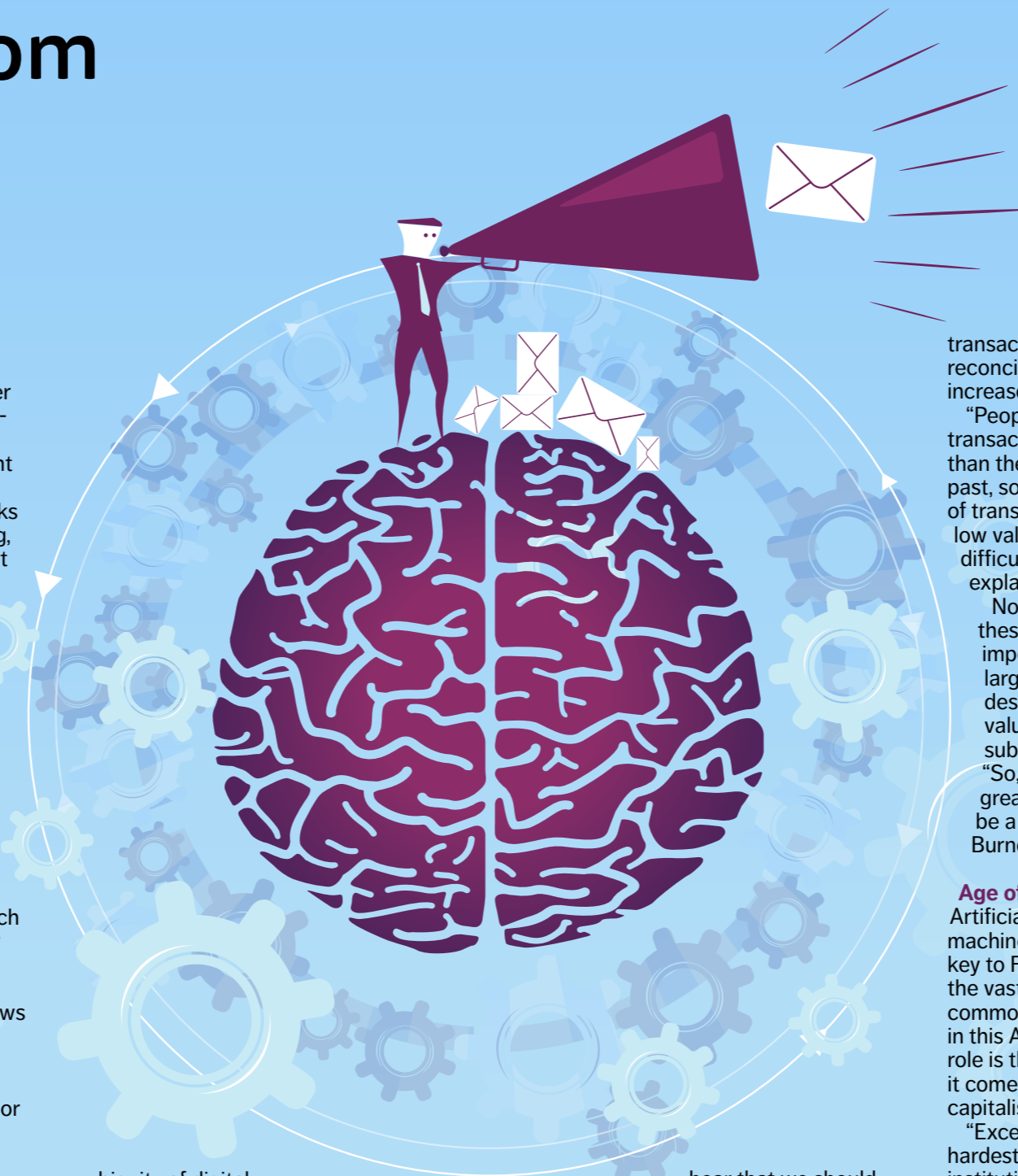
the data to problems with the network, all the way up to the vendor. With such a potentially diverse number of exceptions, management teams can be "huge", Burner says, "because every problem is so specific".

SmartStream is tackling these issues with its ML technologies that can learn many of these problems and attempt to automate them. Humans act as overseers in this process, freeing them up to "focus on the really hard problems".

The human element does not have to wrestle with quantitative data – the machines can handle that – but instead, people can turn their focus and attention to qualitative data problems, improving these processes "significantly", Burner adds.

While the focus at SmartStream is exception management, where reconciliations are but one of the sources from which exceptions arise, "when we started talking to exception management departments, we discovered that we solved a much bigger problem than just reconciliations," Burner says. "In the end, it's about enhancing the customer experience."

Exceptions often arise at a time when there may be a problem with a payment, or a payment was taken by a party the customer does not recognise, or their account was hacked. AI/ML technologies can





resolve these issues accurately and at speed.

“It makes a huge difference if the bank can solve that problem within half an hour, or a week.”

Cracking open the black box

While the benefits of AI/ML to banks and other FIs are numerous, many are still apprehensive about these fairly nascent technologies. This is particularly true when it comes to so-called black box technologies, whereby the applications spit out an answer or direction without revealing how it arrived at this particular conclusion.

Interestingly, SmartStream tackles this issue by explaining how these technologies arrived at their answer, creating transparency by adding a window into the black box.

“We might say, we are proposing that workflow to you because your data is in US dollars and there is a certain pattern in the data that will help clients,” Burner says.

And it’s just not revealing the ‘sums’ of the black box, but also presenting the data in a human-friendly way. To do this, SmartStream hired UI/UX teams to present the data in a way that is palatable and actionable to users.

“It’s not just about data, but how we show and present the data. We have huge amounts of information, but how do you present that information to the user in a helpful way?”

Thanks to that investment in UI/UX, SmartStream recently nabbed a Red Dot Award, which caters to the communication and user experience design industry.

“We invested so much in our application user interface design, to make the UI and AI seamless, so that users feel

“It’s not just about data, but how we show and present the data. We have huge amounts of information, but how do you present that information to the user in a helpful way?”

Andreas Burner, SmartStream

supported and can trust the system,” Burner says.

Context is also key here, with only the exact information that is needed for that workflow on display. “It’s highly contextual, we show information that we think would help the user, and nothing else.”

Boosterism

SmartStream has shown that when AI and ML are deployed in reconciliations, processing efficiency can be boosted by up to 20%. But there are other benefits, operational or otherwise, that a bank or FI can expect when they deploy these technologies.

“While we can automate 20%, we can also suggest to the user another 20% of workflows, and suggesting workflows to a user substantially increases efficiency as well,” Burner says.

While that efficiency cannot be measured as well as automation, “you can see that users get

higher quality data because the data has already been reduced before it is presented to them”. This arrangement, where humans and machines are working together, has a huge positive operational effect.

And the aforementioned employee churn can also be ameliorated, creating efficiencies through the relay of accrued staff knowledge during the onboarding process for new recruits.

Observational learning

The pace of innovation in this area continues. AI/ML technologies are getting smarter all the time. One new piece of kit at SmartStream is Affinity, which utilises observational learning to reduce the complexity of reconciliation.

Affinity is a component that can be deployed at a bank which works with the SmartStream application and observes user actions to understand on what basis decisions are made.

“It’s constantly checking for patterns and when it finds patterns, it will remember what it has learned,” Burner says.

Once activated, Affinity can get to work straight away, poring over the vast amounts of data that banks are required to store and learning from past actions. “So, there’s no ramp-up period,” Burner explains. “We can train it using data from the last seven months, even the last seven years.”

Affinity is fully integrated into SmartStream’s reconciliation solution, where it can automate workflows, suggest workflows or measure the quality of workflows.

“It is a very powerful component that we that we are deploying with our software products.”

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It's not fintech coming of age, it's the incumbents

By Dr Leda Glyptis, chief client officer, 10x Banking

I saw an infographic not so long ago marking 2005 as the year 'fintech' started.

It's an arbitrary moment, of course, but it feels roughly right.

In 2005, it said, Zopa launched in the UK. Were they the first small tech company? Of course not. I worked at a tiny tech company way before that. So did many others. We were all in fintech before it was famous, it turns out.

Did I think of them as 'fintech' when I met them back then? You know... I don't remember.

Were they the first peer-to-peer lender?

It actually doesn't matter.

The moment in time when new business models enabled by fairly new digital capabilities and championed by smaller, younger and less formal business vehicles... happened roundabout then. And then the iPhone

landed and it all started going gangbusters.

But going *where*?

It wasn't really all that clear for us as an industry for such a long time. Banks at first looked for things to buy.

We all said 'change is the new normal' but we didn't anticipate what actually happened. We said it sort of meaning that we expected some evolution in the way we achieved our aims. But we didn't expect drastic change to those aims, if we are honest. Or to us... and that is important.

We didn't expect to need to transform ourselves. We expected to need to transform the tools we used. And that was hard enough, but at that early stage... nobody imagined this couldn't be 'addressed' through acquisition.

Investments are things we understand after all. Balanced

risk is a thing we understand.

I remember being at Sibos all those years ago and the first start-ups making their appearance in a setting that was perfectly curated to give off a vibe of university meets high-end store. Because the banks were super keen to talk to the start-ups for one of two purposes: to learn from them or to buy them. Sometimes both. Sometimes they bought a bit, a minority stake in the little start-up. Sometimes they didn't do that at all and all they did was take. Time and energy and ideas.

Then it started dawning on us that if all those start-ups that we invest in were to be successful, that success was to come from somewhere... right?

So the zero-sum narratives of disintermediation began.

Are the start-ups going to eat our lunch?

Back to Sibos, with these questions top of mind.

And the lesson this time was around partnerships. About learning together and allowing your incumbent 'shop' to find acceleration in your new endeavours through a targeted partnership with the right start-up. And the right partnership is key, we heard year in, year out at Sibos. Absolutely key. Because the economy is shifting. All the learning we've been trying to glean from the start-ups. We don't need a bit of it. We need all of it.

It turns out it's not enough to understand what an API is. Because once you understand it, you need to price it. And fund it. And it's not just the one API either.

And the service you deliver? It doesn't just look different. It is different. With new operational

realities, costs, risks, SLAs and new competitors. And a newly demanding and highly informed set of customers. Not to mention the regulators who seem to be learning faster than anyone.

And back to Sibos we went, year after year. And each year the way we engaged with 'this space' matured a little.

And the size of 'this space' grew a lot.

Because, if 10 years ago there were a couple of start-ups talking about ways of working and partnerships and payments for the future and *this thing Bitcoin...* with every passing year new horizons were there to be faced. What started as a digital toolkit and an opportunity became, year on year, a profound, complex, mature digital landscape. The economy. All of it.

It turns out we didn't 'run' that.

As bankers, I mean. As GSFI (globally significant financial institutions, for the uninitiated), we serve it, but we don't run it.

Don't you tut me.

Don't you dare tell me "we know". Let's be honest with ourselves. If we, the banks, didn't think we ran the economy, then we certainly acted like we did.

We were not deluded enough to assume we will run, police or own all technical innovation. But, for our early Siboses since this transformation started, there was a palpable sense of being in control of timings and direction in the way all FIs engaged with the topics. Of having a choice of 'what' and 'when' and 'how' when it came to 'digital'.

Start-ups were not just pitching their business.

They were pitching the future.

We needed to believe in a life of always-on fragmented

attention before we bought into the value of services designed for interruption.

We needed to believe there was something 'in it' for the institution before giving our blessing to spot FX transactions for the masses.

When did we realise that was a chimera? I can't put my finger on it, but if I look back at past Siboses, there were definitely some sessions that can retrospectively be grouped under the collective heading of "the 'I told you so' series".

No excuses. All the learnings we needed have been here. And the urgency. That was here too.

So here we are, back for another year. To learn. To think. And why not? To buy.

But above all, to think.

Because we are not in control of the why, the what or the how. We are only in control of what we do in all this. And how far we play our own hand in order to have an impact on the why, the

“ So here we are, back for another year. To learn. To think. And why not? To buy. But above all, to think.

Dr Leda Glyptis , 10x Banking

what and the how: collectively, as an industry, at the institution or indeed individual level.

Not as the single author of a digital future but as an actor and active participant in an economy we serve but not own. In an economy that is evolving faster than our industry's learning. Which is bad both for our ability to serve and for our commercial relevance, frankly, so we are incentivised to pay attention. For our own sakes and that of our organisations.

And this year, Sibos says yeah OK, well done, you've learned a lot in the past decade and a

half but the world is not waiting for you. It keeps shifting. So use all the things you have learned so far to think about your role in a subscription economy. In an economy that keeps shifting along the lines we've already discussed but faster than ever.

Another one? I hear the bankers' unspoken groan.

Another thing to learn? Sort of. It's the same thing. It's the next thing.

All the things we've been learning over the past decade and a half are absolutely useful for you to even begin understanding this here thing and your place in it. But don't dawdle because the next thing will be upon us before you know it. So use this time, this space, this week to learn and think. Use the rest of the year to act. And we will meet again for the next step, as an industry, to think and learn together as we do each and every year.

God, I love Sibos.



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Are banks progressive about product?

By Dharmesh Mistry, CEO, AskHomey

What is the most recent product innovation for retail customers to come from high-street banks?

I asked this question to a group of well-respected friends and colleagues in the banking industry. The most popular responses were things that related to access like apps or internet banking or features like personal finance management. Some people said buy now, pay later (BNPL), P2P and crowdfunding; however, none of these were created by banks.

In the world of payments, we've seen players such as PayPal, Stripe and Wise grow successfully. However, aside from product features like reward programmes (bundling) and cashback, banks have not really innovated here either.

So, to answer my own question, I believe the last real example of "product innovation" to come from a bank was the offset mortgage in the 90s. That would make it almost 30 years since banks innovated on products for retail customers. Just to be clear, by innovation I mean anything that fundamentally changes the way an existing product operates or which simply wasn't available before. Based on this definition, you could argue for internet/mobile banking, but we would be arguing about interpretation and

missing the point about really rethinking products.

Solving customer pain points

As mentioned above, existing products have been reimagined from outside of banks, and this continues to be the case. To make my point, let me give three examples of companies being far more progressive in redefining products to solve customer pain points.

1) UnitPlus – making investments more accessible.

UnitPlus is a German fintech that looked to solve a problem that many investors can relate to, and that is investing your money means tying it up for a period of time. This is because the actual investment has to be liquidated (traded) and that is not as simple as going to a cashpoint and withdrawing cash. On top of that, you'd need to think carefully as frequent withdrawals would be costly due to trading fees.

UnitPlus customers can now invest in a range of ETFs and have a card that they can spend with against their investments. Behind the scenes, the money to pay for transactions is made available through necessary trades of the ETF(s); however, transaction fees are no more than what credit cards charge.

How all this is possible is the

intellectual property of UnitPlus. Whether we all want this is also a separate issue, though there is a generation of younger adults who want more for their money than the small percentages that banks pay while accepting some risk on the investment. The key point about UnitPlus is that it saw the customer problem of liquidity (accessibility) of funds in an investment and sought to solve that problem.

2) SavingBlocks – providing exceptional returns for savers.

SavingBlocks is a start-up targeting savers that want better returns for their money. While a low interest rate world is now starting to change, many savers have lost out over the last 20 years with savings rates at 1% or less and will continue to lose out with rising inflation.

Cryptocurrencies have made huge gains and losses, and as such they remain volatile investments. However, not all crypto investments have such a high risk. There are a number of ways of getting returns (yield) without buying specific coins (investments) such as staking and lending. The challenge here though is the complexity of dealing with different platforms, and crypto is notorious for not being user friendly.

SavingBlocks has developed



its own interfaces for these types of investments and is aiming to solve the “usability” issue. Its investment strategy only selects investments that have 1:1 backing with real-world assets – for example, collateralised stablecoins. On top of this, the firm insures its investments to reduce risks further. By addressing the usability and volatility issue of crypto, SavingBlocks offers its customers higher yields than banks and at lower risk than investing in crypto directly.

3) Metro AG – providing rewards without switching banks.

Metro AG is another German non-financial organisation entering the world of financial services, this time through embedded finance. Although the

“ Start-ups not encumbered with the legacy technology and processes of banks are more easily able to understand customer problems to reimagine solutions and products.

Dharmesh Mistry, AskHomey

company is not targeting retail customers, its model is very interesting, and I can see how this could be used by others in the retail market.

Metro is a wholesale product provider to restaurants and hotels. It saw its customers moving towards digital some time back and also saw how traditional banks were starting to lose engagement with their customers through open banking. It saw that its customers were underserved by banks and sought to provide solutions for their needs. The firm’s first two products address the following pain points:

- 1) Customers have money in their account that is not earning interest.
- 2) Customers need to improve their cashflow.

To solve these problems, Metro launched a decoupled credit card, which is basically a card that sits on top of a customer’s existing bank account.

Metro then provides cashback on all card spend. In the background, their bank account is debited for transactions on the day. Metro ensures the customer has available funds by checking their balance four times a day.

The customer is then rewarded and Metro gains customer loyalty. Better still, the firm now directly understands where the customer is spending money, effectively taking valuable data/engagement away from the host bank. This is made possible by open banking and the smart use of technology.

For the second problem, Metro has created its own BNPL option, something that can be used online and offline for every purchase that has been made with the Metro card, independent of whether the purchase was made at Metro or another merchant.

Understanding problems

Banks have invested millions in innovation in different ways (funding, incubation, partnering and so on) and for different reasons (new technology and new markets, for example). However, little if anything has come from this in terms of “products” launched to customers, and it is clear that start-ups not encumbered with the legacy technology and processes of banks are more easily able to understand customer problems to reimagine solutions and products.

This is not just the innovator’s dilemma, as Clayton Christensen puts it, this is more about the legacy of the organisation and of the industry. Start-ups are able to challenge the norm because they have no legacy. They are able to test the boundaries of regulations quite often first by breaking their rules.

What is clear though as the tech landscape expands at an ever-faster pace is that while the breadth of innovation outside of banks might not be a challenge to their existence, it will certainly limit new growth opportunities. This certainly matters when growth in banking has slowed dramatically since the financial crisis of 2007/08.

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State Street Digital Digest Volatility and the digital transformation

Key takeaways from State Street's latest analyses of developments in digital finance

The third edition of the [State Street Digital Digest](#) focuses on recent market volatility around cryptocurrency – what has been popularly dubbed this summer's "crypto winter" – which negatively impacted an influx of new investors in the space.

In addition to insights from our own experts, in this issue we introduce perspectives from our client, Fideuram Intesa Sanpaolo Private Banking. Other topics explored in the Digital Digest include regulatory trends in cryptocurrency, governance in decentralised finance networks, the potential for distributing digitally tokenised assets through ETFs and the growth of stablecoins.

Here, we outline key takeaways from the latest State Street Digital Digest:

1 Bitcoin investment is becoming more long-term

The entities, individuals or institutions that have bought Bitcoin on a net basis this year are long-term buyers (as entities

that have bought, cumulatively, at least three times more Bitcoin than they have sold). Data from Glassnode shows that these investors now hold 78% of Bitcoin supply. This is the highest share in five years and is a marked change in behaviour to the 2017/18 crash, when long-term holdings capitulated.

2 Asset manager experience also points to more long-term interest in crypto

Fideuram chief operating officer Riccardo Negro offers his perspective on increased institutional interest in Bitcoin, Ethereum and other cryptocurrencies. "We see many institutional investors deciding to buy cryptocurrency and hold it for a long time, for portfolio diversification. And although the price of Bitcoin indicates a period of consolidation for the crypto market, I see cryptoassets playing an important role in the future of the institutional portfolio," he says.



3 International bodies are rallying around global crypto standards

In July, the Financial Stability Board (FSB), an international body comprising the ministers of finance and central bank governors of G20 countries and beyond, as well as organisations having a major role in global financial stability, issued a "Statement on International Regulation and Supervision of Cryptoasset Activities". The statement stressed following a path of "same activity, same risk, same regulation" when approaching cryptoasset activities, voiced support for timely implementation of international standards and noted the need to adopt regulations to address financial stability risks arising from cryptoassets; in particular, stablecoins.

4 The Ethereum merge is here

Ethereum, a blockchain platform used for cryptoasset transactions, including of its own cryptocurrency Ether, has recently engaged in a change of governance model. "Ethereum 2.0" limits voting rights to approved validators, rather than all successful miners of Ether (a switch known as "proof of work" to "proof of stake"), who must own at least 32 Ether and will only have voting rights equal to a maximum of 32 Ether, regardless of how many they own. There will also be a system of sanctions for inappropriate voting.

5 ETFs set to benefit from blockchain technology

ETFs are in pole position to become a preferred fund-based wrapper for retail investors looking for access to private markets and other illiquid alternatives, via digital fractionalisation. It is already the fastest-growing fund type of the past decade and its existing advantages in terms of liquidity and low fees will remain in a digital asset fund environment. Exchange-traded products are also at the forefront of existing use cases for blockchain in fund management. They make up 46 of the 73 funds globally, with assets under management of approximately \$70 billion, either holding direct cryptocurrency or trading cryptocurrency futures.

6 Stablecoin growth is bringing regulatory challenges

According to analysis from State Street Global Advisors, the regulation and mainstreaming of stablecoins will deliver a large tailwind to the growth of decentralised finance, with macro policy implications. The overarching question for regulators with regard to stablecoin regulation is whether to create a fresh set of regulations or to adapt existing banking or securities regulations. They expect policymakers to treat stablecoins under securities regulation, similar to that of money market funds. Specific rules will aim to ensure standardisation, limit systemic risk and heighten investor and household protection.

Read the full Digital Digest [here](#).

A look ahead – India's fintech growth story

By Shruti Khairnar, reporter, FinTech Futures

For post-pandemic visitors to India, one major societal change will not have gone unnoticed: the country's transition to a cashless economy.

Those who visited before the pandemic hit will know how cash-dependent the country previously was.

The pandemic spurred this change and now, be it shop owners or street-side vendors, most Indians prefer to use their phones to make and accept payments, a majority of which is done via UPI.

Short for Unified Payments Interface, UPI was developed by the National Payments Corporation of India (NPCI) and went live in 2016 with 21 banks. That ecosystem has now grown

to 358 banks as of September this year.

Its transaction volumes grew at a steady rate pre-pandemic too, but saw massive growth during the pandemic, signalling that the digital transition was well underway. UPI is currently handling about 6.5 billion transactions per month.

Pegged at \$31 billion, India's fintech market ranks third in the world, trailing only the US and China, and analysts at Inc42 are betting the market opportunity will be more than \$1 trillion by 2025. India's fintech adoption rates are also some of the highest in the world, standing at 87% compared with the global average of 64%.

And the country is living

up to the hype. In May this year, India celebrated another unicorn – Open – a Bengaluru-based, Google-backed neobank that secured fresh funding in its Series D round, taking its valuation to over \$1 billion.

Today, there are more than 20 fintech unicorns in the country, with many in the pipeline poised to join the burgeoning list.

Despite this stellar growth, the year 2022 hasn't been kind to the global start-up industry – and India hasn't been immune to the challenges either. Layoffs and reduced funding have affected scores of Indian fintech companies. According to various media reports, Indian start-ups have already laid off more than 10,000 employees this year,

following the highs of last year that saw a number of companies go on hiring sprees.

However, the market turbulence has not discouraged domestic nor international players.

Revolut, the UK's banking super-app, is gearing up for its India launch having recently appointed Saleem Arshad as the chief technology officer (CTO) for its India operations and inaugurating its new head office in Bengaluru.

Another UK-based financial platform, Tide, which provides digital banking services to small businesses and entrepreneurs, also announced its intention to launch in the country, and is currently allowing users to sign up for early access. It plans to launch full-scale operations in the country sometime this year.

Domestic players won't be left behind in the race though, including the likes of challenger banks Jupiter, Niyo and INDMoney.

India's regulatory landscape is also evolving along with the fintech industry. At the recently concluded Global Fintech

Fest 2022 held in Mumbai, the Ministry of Finance and the Reserve Bank of India's (RBI) governor made a slew of speeches highlighting their intentions to further develop and support fintech's growth in India.

The Royal Bank of India (RBI) recently organised its first global hackathon with "smarter digital payments" as its theme, created a new fintech department to help guide the sector, and is also working on creating its own central bank digital currency (CBDC).

The country's IT minister, Ashwini Vaishnaw, also stated that one of the government's key focus areas would be building a "robust" digital infrastructure and regulatory framework for the fintech space, with an eye on social inclusion.

However, a new report by Matrix Partners India and Boston Consulting Group (BCG) says that while Indian fintechs have made a "strong contribution" to the economy, reaching over \$800 billion in annual payment transaction volume, they might not rake in any profit for the next two to three years.

It surveyed 125 founders and executives of fintech companies, of which 70% believed they may not be profitable in the near future due to an increased focus on scale as opposed to profitability and compliance.

"We're at a fork in the road in the India fintech story with sceptics raising many questions," says Vikram Vaidyanathan, managing director at Matrix Partners India. "Indian fintechs have undeniable scale, provide superior value to customers and have emerged resilient through a once-in-a-lifetime crisis in Covid-19."

However, to continue the success, Yashraj Erande, managing director and partner at BCG, says "new muscle" will be needed for newer priorities, such as profitability and governance.

"Growing together in partnership with incumbents and private innovation on public utilities will be key moats," Erande adds.

In conclusion, India has proven that it offers fertile ground for fintech start-ups. But is that enough to make them profitable? Only time will tell.

Is paperless trade within our grasp?

By Gwynne Master, managing director and head of lending, trade and working capital solutions at Lloyds Bank

Digital trade finance has the potential to transform how we do business across borders. But it's not currently the norm.

Why is this? Particularly in an industry that has already made such transformative leaps to digitise every other way that we pay and are paid. What needs to change? And what are banks doing about it now?

Opportunity at hand

More than 28 billion physical trade documents are couriered around the world every year. Digitising these would unlock clear advantages.

Firstly, there's the benefit of speed and efficiency.

Relying on paper documentation is time-consuming and more expensive than potential digital-led solutions.

Trade documents require checking by a dwindling number of operational experts, exposing banks and companies to risk, cost and time-consuming manual work. By way of example, a typical transaction involves at least 27 individual documents, some containing data points that may be duplicated up to 10 times. This complexity opens the door to processing delays due to discrepancies between documents.

There are also benefits in terms of security. Digitalisation allows banks greater certainty of authenticity and can help reduce opportunities for fraud such as 'double financing' – cases where someone secures multiple streams of financing against the same asset.

There's the obvious environmental advantage in

reducing paper volumes as well, from materials and printing to the potential reduction in travel and the associated carbon footprint generated by couriers ferrying documents from office to office.

And perhaps most importantly, there's the contribution paperless trade finance could bring to reducing the barriers to entry for smaller companies to international trade. Digital processes could make trade more accessible and more affordable for more businesses.

Barriers to action

So why aren't we already trade financing in bits and bytes?

The lack of a clear legal framework for digital trade finance is the first major barrier.

A new Electronic Trade Documents Bill is expected to be introduced in the UK soon, which would codify the legal framework for digital paperwork in England and Wales. This represents a significant step forward, but more must be done to harmonise this position across the world, beyond the UK.

Businesses and banks face the fundamental problem that they often can't legally digitise documents required to complete a trade transaction, such as bills of lading, bills of exchange and promissory notes across all jurisdictions. This is simply because of limited legal precedent, opinion and case law on digital transactions, as well as a standard legal framework that covers all digital trade documentation.

Where there are global initiatives in operation, take-up is low.

Only a handful of jurisdictions

have adopted the United Nations' Model Law on Electronic Transferable Records (MLETR), while the International Chamber of Commerce's (ICC) electronic rules for presentation under Letters of Credit – introduced more than 20 years ago – are currently only applicable to 0.1% of trade finance transactions issued by Swift.

And there's the challenge of interoperability.

Where digital trade solutions are brought to market, the majority operate as closed systems. This can cause issues.

As just one example, there are currently seven major providers of electronic-bill of lading (e-B/L) – electronic versions of the documents that serve as a 'receipt' for goods being shipped, representing the contract of carriage between the person shipping goods and the carrier, and which allow the rights of the cargo to be passed between one party and another.

This last function – the transference of ownership of the goods – is currently difficult to achieve with an e-B/L unless both parties at each end of the transaction are using the same e-B/L platform. At this time, an e-B/L on one platform cannot be transferred to another platform – limiting their opportunities for use.

Path to progress

Collaboration will be essential to tackling these challenges.

Trade finance is delivered through a highly complex ecosystem, involving a diverse set of parties

– from banks and businesses to customs authorities and inspection agencies.

Working towards greater standardisation and interoperability across this ecosystem is key.

Parties in the trade finance ecosystem understandably take comfort in conducting documentary trade finance against ICC rules that have been in place for decades. There is perhaps some concern that moving to new digital formats will mean more risk of transactions being challenged – and with it, a financial and reputational price to pay.

Developing tried and trusted global networks built on the same high levels of security that banks, Swift and international trade authorities already utilise will provide the bedrock we need for a confident, widespread rollout.

As these bridges are built, digital trade finance innovation must continue. We need to show exactly how paperless trade finance solutions can work, and the scale of the benefits they can bring.

At Lloyds Bank, we are working closely with bodies such as the ICC, Bankers Association for Finance and Trade (BAFT) and International Trade and Forfeiting Association (ITFA) on a number of digitalisation working groups to facilitate and expedite the trade finance ecosystem's digital transition.

Paperless trade isn't a fantasy. But it will require our sector's ingenuity and cooperation.

We've all got a part to play.



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